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Commission Members  
Berrien County Road Commission  
Benton Harbor, Michigan 49022

In connection with our audit of the books and records of the Berrien County Road Commission for the year ended September 30, 2003, we offer the following comments and suggestions:

**Level of Effort Provided by the Accounting Staff** – We would like to extend our compliments to the accounting staff for their extra effort this year during the implementation of GASB 34. The staff spent considerable time learning the new requirements and gathering information necessary to fully comply with the new accounting provisions. Additionally, we noted improved record keeping and simpler account reconciliations. Part of this is due to having another year of experience with the new accounting system, which has significant capabilities. Continued effort toward better understanding of the accounting system will continue to lead to improved efficiency and better decision making data.

## **BETTER INFORMATION PROCESSING FOR IMPROVED DECISION MAKING**

**Financial Statement Review Process** – Once again, during wrap-up of the engagement, Plante & Moran received numerous minor corrections to account balances after the audit was substantially complete. The financial statement information presented is information obtained from management, and any reclassifications or concerns should be addressed before the audit. The new accounting software that was implemented last year is a powerful database that allows data to be summarized, reported, and easily analyzed at any level of detail desired.

We recommend that management institute a monthly or quarterly financial statement review process. The system should be able to generate customized reports that can be reviewed and analyzed by management to identify any errors or omissions before year-end.

**Accounting for Capital Assets** – The new accounting system has tremendous capability with regards to the tracking and maintenance of capital acquisitions and disposals. With the new GASB 34 requirements, this capability could be invaluable as a tool to properly account for components of infrastructure: road construction, bridges, traffic signals and contributed subdivision land improvements.

Currently, only vehicles are being accounted for within this new component. Considering that we will be required to retroactively capitalize 20+ years of infrastructure (dating back to June 30, 1980) by fiscal year ending September 30, 2007, we recommend that all assets be accounted for within the new system. A monthly or quarterly reconciliation should be performed to identify any discrepancies. We recently learned that the staff is currently working with the software provider to explore its capability related to infrastructure.

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**Improved Accuracy of Reconciliation Process** – During the audit of cash accounts, it was noted that there were some outstanding checks listed that are three years old. Additionally, there were checks that had been voided at the bank, but they had not been voided in the system. We recommend that these items be remedied and properly reflected in the accounting system in order to more accurately reflect cash balances and to save time reconciling the same items every month.

**Capitalization Policy & Compensated Absences** – Last year we recommended that the capitalization policy be clarified with regards to small equipment purchases, and that compensated absences should be tracked in the accounting system. During the audit this year, there were no discrepancies found related to small equipment, and we received a summarized report of compensated absences directly from the accounting system. We would like to acknowledge the staff for taking proactive steps to implement these ideas.

## **IMPROVING INTERNAL CONTROLS TO BETTER PROTECT ASSETS**

**Imprest Cash Accounts** – During our testing of cash, we noticed that both the payroll and voucher accounts are imprest accounts, yet the bank reconciliations seldom balanced to zero. An imprest account is designed to improve safeguarding of cash by depositing an exact amount into one account equal to the amounts to be withdrawn. Additional draw-downs on the account cannot occur, and unusual activity is easily identified. We recommend that a zero balance reconciliation be performed, and that any discrepancies be rectified immediately to prevent, minimize, and deter fraudulent activity.

**Payroll Wire Transfers** – Significant sums of money are wire transferred to fund payroll. Our audit inquiries and review of documentation revealed no evidence of review or approval by a supervising individual for these wire transfers. One person was responsible for carrying out the activity. One of the cornerstones of the prevention of fraud is to minimize opportunity through oversight and review. Although we found no evidence or any indication of fraud in this matter, we recommend that proper review and secondary authorization be performed and documented in accordance with the stated policy.

**Documentation of Expense Reimbursements** – During our review of expense reimbursements, we noticed that submitted documentation lacked details regarding the business purpose for the expense. It appeared that the documentation was being properly reviewed and approved, but the business purpose was not clearly stated. The expense reimbursement form should document the who, what, where, when and why of the expense.

We sincerely thank you and appreciate the courtesy and cooperation extended to us by you and members of your Organization during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

This report is intended solely for the information and use of the Road Commission's Board and Management.

*Plante & Moran, PLLC*

December 8, 2003

